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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001412

SIPDIS

STATE FOR EB/TPP/ABT EHARTNEY  
STATE PASS TO USTR AHEYLINGER  
COMMERCE FOR ITA/OTEXA MD'ANDREA

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TAGS: [KTEX](#) [ECON](#) [ETRD](#) [BA](#)

SUBJECT: TEXTILES AND APPAREL SECTOR: UPDATED STATISTICS  
AND PROJECTION OF FUTURE COMPETITIVENESS

REF: STATE 146213

Classified By: Deputy Chief of Mission Susan L. Ziadeh, reasons 1.4 (b)  
and (d).

11. (U) Bahrain's textile and apparel industry is relatively small and represents a minimal contribution to GDP. Its contribution is further reduced by a robust increase in oil revenues, which increased by 20 percent in 2004. The lifting of global textile quotas on January 1, 2005 has led to several textile factory closures and an overall reduction in textile and apparel production. The largest and most technologically advanced local textile firm is Manama Textiles. With GOB encouragement, it has absorbed some of its failing competitors and has managed to survive thus far. Manama Textiles exports 70 percent of its production to the U.S.

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DATA  
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12. (U) Data available on textile and apparel production in Bahrain for 2004, requested reftel, are as follows:

- Total Industrial Production: USD 3,942.5 million (Source: Bahrain Monetary Agency). This includes manufacturing, fishing, agriculture, mining, electricity and water production.
- Total Textiles and Apparel Production: No official statistics are available. However, a local industry expert estimates textile production at USD 80 million and apparel production at USD 246.94 million.
- Textiles and Apparel's Share of Bahrain's Imports: 3.4%
- Textiles and Apparel's Share of Bahrain's Exports: 3.3%
- Total Manufacturing Employment: No official statistics are available, but Embassy estimates derived from Bahrain Monetary Agency statistics, in addition to data provided by the Ministry of Finance, place manufacturing employment at 23,100
- Total Textiles Employment: No official statistics are available. However, a local industry expert places employment in 2004 at between 1,200 to 1,700 Bahraini nationals. (Similar estimates were used in the FTA.)
- Total Apparel Employment: No official statistics are available. However, industry experts estimate total apparel employment in 2004 at 8,000 to 11,000 of which approximately 2,500 were Bahraini nationals. (Note: The total number of apparel factories dropped from 22 at the close of 2003, to just 15 at the close of 2004.

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ADDITIONAL INFORMATION  
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13. (U) Manama Textiles CEO Hamid Nishat told Econoff September 14 that the relatively small size of the local textile industry, coupled with its limited growth potential (due to a limited supply of skilled textile labor and no domestically available inputs) renders it vulnerable to international competition. He confirms that competition has depressed prices and that the overall amount of orders has decreased. (Note: The downturn in profitability for the sector has disproportionately affected Bahraini-owned companies, which tend to have fewer distribution channels than their foreign-owned counterparts. The majority of textile companies currently operating in Bahrain represent Asian investment. End Note.) Economic Development Board (EDB) Vice President of Manufacturing Project Development and Lead Textiles Negotiator for the U.S.-Bahrain Free Trade Agreement (FTA) Dr. Haitham Essa Al Qahtani told Emboffs September 14 that several foreign investors, including Asian investors, have closed factories in Bahrain following the elimination of global textile quotas this year. Companies lacking international distribution networks have been

particularly hard hit. Other small factories are reported to be running acutely below capacity.

14. (U) Local industry experts report that neither the seven U.S.-approved safeguards restricting the growth of Chinese imports nor the European Union agreement with China to limit growth of certain textiles and apparel products have had any visible effect on the local textile sector's export prospects. Dr. Al Qahtani states that the Government of Bahrain has not implemented, nor is it considering implementing, any measures to reduce the growth of imports of Chinese textiles.

15. (U) Many workers have lost their jobs due to recent factory closures. The GOB has provided retraining to displaced Bahraini and expat workers in many cases. Post is not aware of any instances in which global textile industry competition has had a negative impact on union organizing. Interestingly, Mr. Nishat notes that increasing competition for expat labor is creating pressure on employers to increase wages. Bahrain has no minimum wage.

16. (U) The GOB has taken measures to improve the overall investment climate by reducing bureaucracy and improving transparency. The Ministry of Industry and Commerce established the Bahrain Investor's Center in a bid to streamline and simplify the process of opening new businesses. The EDB seeks to attract new investors to reopen closed factories and will promote a restructuring of the local textile industry.

17. (U) Manama Textiles has set up a processing house to introduce value-added, finished fabrics. Mr. Nishat says his company is also considering additional investments on the order of USD 50 million over the next two years to enhance its vertical market position in anticipation of increased trade following the implementation of the FTA. The FTA will allow duty-free import of Bahraini textile and apparel products. (Note: The FTA has been fully ratified by the GOB. The U.S. House Ways and Means Committee has formally set hearings on the FTA for September 29. Senate hearings are expected to take place shortly thereafter with a view toward full ratification before year-end. End note.)

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COMMENT  
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18. (C) Mr. Nishat expresses optimism that FTA implementation will spur a recovery in Bahrain's flagging textile sector. Government officials report being committed to facilitating recovery of the sector. However, they privately acknowledge that it may already be too late for Bahrain's small textile sector to recover against steadily increasing competitive pressure. Though officials express concern at finding jobs for laid-off textile workers, alternate employment in the sector is seen as a decreasingly viable option. It is likely that the sector will continue to decline, though some individual firms, such as Manama Textiles, may manage to prosper. End Comment.

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